

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

REVIEW REPORT
OF

BUREAU OF MOTOR VEHICLES
ABANDONED VEHICLE AND DEALER OPERATIONS
STATE OF INDIANA

November 14, 2003 to October 11, 2005

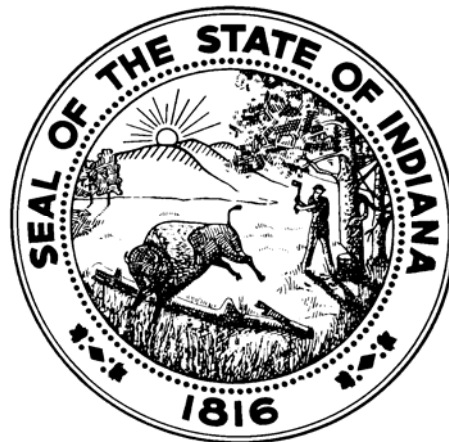


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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner	Gerald Colman	01-06-02 to 02-29-04
	Mary DePrez	03-01-04 to 01-09-05
	Joel Silverman	01-10-05 to 01-11-09



STATE OF INDIANA

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE BUREAU OF MOTOR VEHICLES

We have reviewed the Abandoned Vehicle and Dealers Operations of the Bureau of Motor Vehicles for the period of November 14, 2003, to October 11, 2005. The Bureau of Motor Vehicles' management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports.

Based on our review, nothing came to our attention that caused us to believe that the Abandoned Vehicle and Dealers Operations of the Bureau of Motor Vehicles are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State Agencies, and applicable laws and regulations except as stated in the review comments.

STATE BOARD OF ACCOUNTS

October 11, 2005

BUREAU OF MOTOR VEHICLES
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AUTHORITY FOR LOCAL BANK ACCOUNTS

Most license branches are operations of the Bureau of Motor Vehicles Commission. However, the Abandoned Vehicle and Dealer Operations are two functions of the Dealers and Special Sales Branch (Branch) of the Bureau of Motor Vehicles (Bureau) located on the eastside of Indianapolis. The Branch maintains local bank accounts for ease of depositing both the abandoned vehicle and dealer revenue.

Although the Commission does have statutory authority, we found no statutory authority for the Bureau to maintain local bank accounts without authorization from the Treasurer of State. We also confirmed that the Treasurer of State had not authorized these local bank accounts.

IC 5-13-6-1 states, in part that ". . . all public funds collected by state officers, other than the treasurer of state, shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state no later than the business day following the receipt of funds."

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

UNIDENTIFIED CASH BALANCES

Collections for Abandoned Vehicle and Dealer Operations are deposited in separate accounts at a local bank. These funds are not accounted for on the State's system until transferred into the Treasurer of State's account and recorded in the appropriate Auditor of State's fund/centers. Bureau personnel downtown transfer the funds to the Treasurer based on manual reconciliation and weekly system reports which identify the revenue source.

During our review of dealer revenue, we found three inactive local accounts. Two National City accounts totaling \$392,079.73 have been inactive since May 1997 when a Bank One account was opened and that account has carried an approximate balance of \$1,506,436.54 since another account was opened in August 2004. As of July 29, 2005, a combined total of \$1,898,516.27 of unidentified dealer revenue remains in local non-interest bearing bank accounts.

This issue has been addressed in our two prior Bureau Audit Reports B17390 and B24132. Contrary to the Bureau response in the latest report, no evidence of a reconciliation of the dealer account performed by an outside accounting firm could be provided for our review.

In our review of abandoned vehicle revenue, as of July 29, 2005, there is an unidentified cash balance of \$32,214.53 in the local account. This issue has also been addressed in our prior Bureau Audit Report B24132.

Procedures are not in place to ensure a timely transfer of these funds. A lack of adequate Bureau oversight of these local accounts could also allow fraud to occur and go undetected.

The State does not earn interest on abandoned vehicle or dealer revenue until transferred to the Treasurer of State. Based on our simple interest calculation on the three inactive dealer accounts, for the period of May 1, 1997, to October 31, 2005, the State has incurred an estimated loss of interest revenue in excess of \$168,000.00.

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IC 5-13-6-1 states, in part that "... all public funds collected by state officers, other than the treasurer of state, shall be deposited with the treasurer of state, or an approved depository selected by the treasurer of state no later than the business day following the receipt of funds."

Controls over the receipting, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An agency's control environment would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

CASH BOOK

We noted that cash books for the receipt of monies of the Abandoned Vehicle and Dealer Operations were not maintained. As stated in our two prior Bureau Audit Reports B17390 and B24132, the cash books were not maintained timely.

IC 5-13-5-1(a) states:

"Every public official who receives or distributes public funds shall:

- (1) Keep a cash book into which the public officer shall enter daily, by item, all receipts of public funds; and
- (2) Balance the cash book daily to show funds on hand at the close of the day."

DEALER PLATE INVENTORY

To be in the business of selling vehicles, companies must apply for a dealer license and purchase dealer plates through the Branch. The Branch issues five year metal plates, interim (30 day) cardboard plates, and yearly renewal stickers to licensed dealers.

The Branch was unable to provide records to support the number of metal plates ordered, received, and not yet sold prior to February 2005 when a new inventory tracking system was implemented.

There were many interim plates several years old that were identified as purchased by the dealers but had never been mailed. These interim plates will only be mailed after sale records are researched to confirm that these interim plate numbers were actually purchased by the dealers.

No inventory of the number of metal and interim dealer plates has been taken. This lack of internal controls over the inventory of plates could allow theft or misappropriation of assets to occur and go undetected.

Controls over the receipting, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An agency's control environment would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

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BRANCH OPERATING PROCEDURES

During our review of Abandoned Vehicle and Dealer Operations, we found that operational procedures and staff responsibilities were not documented in writing. For good internal controls, these complex processes should be in writing.

Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

BMV FORM 322B

Vehicles left abandoned on the side of roads or parking lots can be removed when a law enforcement officer or private property owner contacts a wrecker/towing company. At the time of tow, a multi-page State Form 4166, also known as BMV Form 322B (322), is completed; the 322 (white) copy is forwarded to the Branch for processing, and the vehicle is towed to a storage lot. An owner can claim the towed vehicle at the storage lot anytime before the vehicle is sold. The lot owner must release the vehicle when proper identification is given and all towing and storage fees are paid in full.

Upon receipt of a 322, the Branch contacts the storage lot owner, usually by telephone, for verification that the vehicle is still in the lot. If it is, the Branch sends a notification letter to the vehicle owner indicating that the vehicle was towed. If the lot owner specifies that the vehicle has been claimed by and released to the vehicle owner, the Branch does not process the tow and will shred the 322. Destruction of the white copy of the 322 will eliminate any possible subsequent verification that the tow ever occurred.

According to the Form 322B, the pink copy of the 322 should be signed by the vehicle owner when claimed. The back of the pink 322 states "This portion is to be retained by storage lot owner until vehicle is released, then returned to the address shown at right," which is the Branch address. Prior to July 1, 2005, we found that the Branch did not require lot owners to submit the pink copy of the 322 form to the Branch when vehicles were released. Although after July 1 the Branch informed lot owners that they must submit signed pink 322 forms, the Branch is only matching up the pink copies in cases where lot owners are pursuing a mechanic's lien. Accountability for released vehicles would include attaching all pink 322 forms to corresponding white copies.

This lack of accountability of all towed and released vehicles by the Branch could allow storage lot owners to improperly dispose of towed vehicles.

We consider all parts of the 322 form to be an integral part of the Branch's release files which contain processed documents that support the tow and subsequent release of each vehicle. These files have a three year retention period.

Documents should be retained in accordance with a retention schedule approved by the Oversight Committee on Public Records. Public officials or agencies may not dispose of government records except under an approved Records Retention Schedule or with the written consent of ICPR via the Oversight Committee on Public Records. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 15)

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Each agency, department, institution or office should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

DOCUMENT RETENTION

Before the vehicles are scheduled for auction, the Branch contacts the storage lot owners for a second verification of the vehicles still in their possession. The Branch usually faxes a list of vehicles not originally identified as released and the lot owners fax back the list indicating the status of each of these vehicles on their lot as either 'Here' or 'Gone.'

During our review, we found that the Branch does not always retain these faxed lists. We consider these lists as evidential matter to document the activity of each vehicle during the abandoned vehicle process, starting with the submission of 322 forms to the Branch.

Supporting documentation such as receipts, canceled checks, invoices, bills, contracts, etc., must be made available for audit to provide supporting information for the validity and accountability of financial transactions and related non-financial activities. Documents must be filed in such a manner as to be reasonably obtainable, upon request, during an audit. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 15)

Documents should be retained in accordance with a retention schedule approved by the Oversight Committee on Public Records. Public officials or agencies may not dispose of government records except under an approved Records Retention Schedule or with the written consent of ICPR via the Oversight Committee on Public Records. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 15)

TITLE SEARCH DATABASE

Effective July 1, 2005, storage lot owners may obtain title to a vehicle through a mechanic's lien. For storage lot owners opting to pursue a mechanic's lien, one of the required steps is to obtain a vehicle title search. This can be done in person at a BMV reinstatement center or by a request in writing. If a title search identifies the most recent owner, lot owners must send notification of their action to the vehicle owner. If no record is found, the companies are given a clear title and may proceed with selling the vehicle. The title search process utilizes the BMV registration and title master file.

During our review of the mechanic's lien process, we learned that the BMV registration and title master file is not all inclusive. As needed, the BMV would move some of the older or inactive titles from the master file into archive. Therefore, under certain circumstances, a title search could indicate that there is no vehicle owner when, in fact, there is. Thus, the lot owner could unknowingly proceed with the mechanic's lien and sell the vehicle.

According to the BMV, they eliminated the practice of moving files from the master into archive several years ago. However, they did not go back and update the master file with the archived files. So, for older model cars, it may be possible to obtain an erroneous clear title during the mechanic's lien process.

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Information must be maintained in a manner that will allow access for audit and public inquiry on equipment of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 16)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 16)

BUREAU OF MOTOR VEHICLES
ABANDONED VEHICLE AND DEALER OPERATIONS
EXIT CONFERENCE

The contents of this report were discussed on December 8, 2005, with Stephen Leak, Assistant Commissioner, Driver/Vehicle Services.

The contents of this report were mailed on December 8, 2005, to Gerald Colman and Mary DePrez, former Commissioners.